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IN RE:

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GENERIC DOCKET FOR THE PURPOSE )  
OF EXAMINING TRA RULES, POLICIES )  
AND PROCEDURES IN LIGHT OF )  
CURRENT TRENDS IN GAS )  
INDUSTRIES

DOCKET NO. 05-00046

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CONSUMER ADVOCATE'S COMMENTS

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Comes now Paul G. Summers, the Attorney General and Reporter for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate"), and hereby responds to the request of the Tennessee Regulatory Authority ("TRA") to comment on "emerging trends in the gas industry and whether current TRA rules, policies and procedures efficiently and effectively address these trends." TRA Notice of Filing Comments, February 2, 2005.

The natural gas industry provides an essential physical input to the rest of the economy. The industry's financial health and the rate of new technology adoption in the regulated natural gas industry are beneficial to both the private and public welfare. But there must be a continuous balance between that need for financial health and technological progress on one hand, and the tendency for captive customers-- those consumers who have no choice of suppliers and who have no bargaining power to negotiate favorable contracts--to be a source of profits that would not otherwise be achieved in a competitive market. Because the fixed costs are high in the natural gas business, where huge initial investment is required, once investment is in place there is only a small cost to serve additional customers. Furthermore, the cost declines as more customers are added, so

there is a strong incentive for any Local Distribution Company ("LDC") to serve as many customers as possible.

These cost conditions are steady and unchanging for the natural gas business. It uses and requires governmental franchise, eminent domain, and rights-of-way to do business. Entry into the business is controlled, and the business is not readily open to competing suppliers. Consumers' prices are set by administrative process and the natural gas utility usually has an obligation to serve all applicants and provide all applicants with the same quality service.

These conditions generally call for abundant and reliable information as a means for the regulatory authority and other parties to be well informed about the LDC and to achieve a well-balanced policy towards both the industry and the public that relies on that industry. Changing trends in finance, cost and consumption can usually be accounted for and dealt with in traditional contested rate cases filed by the LDC before the Authority.

In recent years, public confidence in many large companies, including utilities such as Enron, was shaken after it was revealed that what the companies reported to the public was not the same as the companies' actual condition. In short, the public did not have the right information on which to make decisions about these companies. One of the best ways, therefore, to create public confidence in the TRA decisions affecting their utilities is to assure that those decisions are based on reliable, publicly available, and transparent information. With this principle in mind, the Consumer Advocate would make the following comments.

**1. MAKE THE MINIMUM FILING GUIDELINES MANDATORY:  
GETTING THE RIGHT INFORMATION TO START A CASE.**

When a company files a rate case with the TRA requesting an increase in prices, there are certain guidelines that set forth the supporting information should be filed with that request. Currently, these guidelines are voluntary. In a recent rate case filed by Chattanooga Gas Company, TRA Docket No. 04-00034, the company deliberately chose not to follow the guidelines, as was its right under current TRA rules. As a result, the Consumer Advocate was forced to ask in discovery for much of the information that would already have been provided if the company had followed the guidelines. As the TRA Directors may recall, this case was a lengthy one, and the company even threatened to put its rates into effect prior to a decision by the TRA if the case was not heard within six months pursuant to Tenn. Code Ann. 65-5-203.

Accordingly, in order to make sure that the TRA, the Consumer Advocate and other interested parties have as much information as early as possible in a rate case, and in order to make sure rates are not put into effect prior to TRA decisions, the Consumer Advocate urges the TRA to make the current minimum filing guidelines mandatory by means of a new TRA rule.

**2. REVIEW CURRENT INCENTIVE PLANS TO MAKE SURE THAT  
THE CURRENT BENCHMARKS ARE RELIABLE.**

Incentive plans, whereby gas companies are encouraged to use practices that cut costs and save money which is then shared by both the company and consumers, are commendable. The Consumer Advocate, however, is concerned that the benchmarks that are used to set the incentives may not accurately reflect the current gas market and may not measure actual savings.

The Consumer Advocate, therefore, urges the TRA to conduct a complete review of the

incentive plans currently in existence in order to determine if they are still providing the proper benefits for Tennessee consumers.

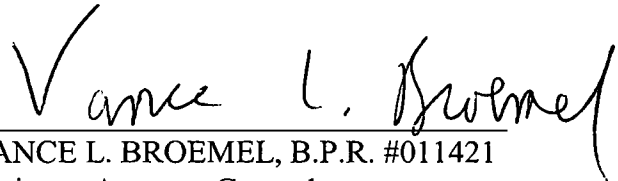
**3. COMPANY AUDITS: MAKING SURE THE TRA HAS THE RIGHT INFORMATION ABOUT TENNESSEE COMPANIES.**

Several recent dockets (01-00704 and 04-00034) have disclosed the need to more thoroughly examine the gas distribution companies' existing operating and accounting policies and procedures to assure that incentives and "sharing mechanisms" are functioning as intended. In addition, there is a need to assure that transactions between companies and affiliates are conducted in a proper manner. This docket presents an excellent opportunity for establishing ways of achieving these goals.

**4. SERVICE QUALITY STANDARDS AND REPORTING:  
GETTING THE RIGHT INFORMATION TO MAKE SURE  
TENNESSEE CONSUMERS ARE BEING PROPERLY SERVED.**

In a recent rate case with Tennessee American Water Company, TRA Docket No. 04-00288, the company agreed to report service quality metrics. Similarly, the Consumer Advocate urges the TRA to request the gas companies to report service quality metrics for their operations in Tennessee and make the data available to the public.

RESPECTFULLY SUBMITTED,



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Dated: March 1, 2005

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing was served via U.S. mail, postage prepaid, on March 1 ✓, 2005, upon:

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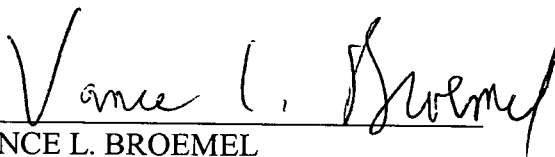
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